

HIGHER EDUCATION

California's public universities and community colleges perform an integral role by ensuring that the state's residents are equipped to succeed in an increasingly challenging workplace. While the Administration recognizes that the work these institutions perform is integral to California's economic well-being, the current economic situation requires that reductions be made to all three segments of higher education. As a consequence of the State's current fiscal environment, it is necessary to suspend elements of the Administration's Partnership Agreement with the University of California (UC), and the California State University (CSU), as well as to make reductions to the California Community College (CCC) budget and increase fees in the CCC for the first time in ten years. The reductions in higher education are proposed with the intent of minimizing the impact on classroom instruction.

Higher Education Access

The 2003-04 Governor's Budget maintains access to higher education by providing over \$383.7 million to fund enrollment growth. The Governor's Budget proposes \$117 million General Fund for UC to support projected enrollment increases of 4.5 percent [8,000 full-time equivalent (FTE) students], for a total General Campus, Health Sciences, and State-funded summer FTE enrollment of 197,628. In addition, this funding provides support for approximately 5,000 FTE over-enrollments that were not funded in the 2002 Budget Act. The Governor's Budget proposes \$151 million General Fund for CSU to support projected enrollment increases of 5.0 percent (16,056 FTE students), for a total FTE enrollment of 337,188. This funding also supports approximately 8,000 FTE over-enrollments that were not funded in the 2002 Budget Act. The CCC is estimated to serve approximately 1,072,000 FTE students in 2003-04. As discussed in greater detail in the CCC section, the



Governor's Budget provides \$115.7 million for 3.0 percent growth for priority instruction programs.

Student Fees

In 2002-03, for the first time in eight years, the UC Board of Regents and the CSU Board of Trustees increased student fees. These increases help UC and CSU fulfill their educational mission while absorbing proposed reductions to their General Fund budgets that are necessitated by the difficult fiscal situation facing the State. Even with these increases, students will continue to pay only a fraction of the total cost of their education. UC and CSU report the average

annual cost of education for an undergraduate student as \$16,470 and \$10,818, respectively. In addition, student fees at UC and CSU remain significantly below the average charged by comparable public universities.

The UC Board of Regents approved a \$135 per-quarter increase in both undergraduate and graduate student fees beginning in the last quarter of the 2002-03 school year, increasing them from \$3,429 to \$3,834 per year for undergraduate students and \$3,609 to \$4,014 per year for graduate students. This represents an 11.8 percent increase in the undergraduate student fee and an 11.2 percent increase in the graduate student fee. The Board of Regents also

FIGURE HIED-1

Higher Education Full-Time Equivalent Students

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2003-04 vs. 2002-03
University of California	152,050	154,141	155,387	157,811	161,400	165,900	171,270	185,304	189,628 ^{1/}	202,628	13,000
Undergraduate	(113,869)	(116,176)	(117,465)	(119,852)	(123,227)	(127,208)	(132,026)	(144,091)	(148,465)	(159,242)	(10,777)
Graduate	(25,546)	(25,346)	(25,318)	(25,682)	(25,629)	(26,114)	(26,666)	(28,487)	(28,897)	(31,020)	(2,123)
Health Sciences	(12,635)	(12,619)	(12,604)	(12,277)	(12,544)	(12,578)	(12,578)	(12,726)	(12,266)	(12,366)	(100)
California State University	247,113	253,376	262,428	267,984	273,928	281,782	290,554	316,395	321,132	338,872	17,740
Undergraduate	(213,390)	(218,529)	(225,624)	(228,909)	(233,155)	(238,923)	(246,511)	(267,100)	(271,124)	(286,321)	(15,197)
Graduate/Post-baccalaureate	(33,723)	(34,847)	(36,804)	(39,075)	(40,773)	(42,859)	(44,043)	(49,295)	(50,008)	(52,551)	(2,543)
Community Colleges	854,831	870,720	902,839	925,328	961,049	998,297	1,041,829	1,103,776	1,136,776	1,072,207	-64,569
Hastings	1,257	1,216	1,284	1,156	1,140	1,116	1,198	1,200	1,200	1,200	0
Total Students	1,255,251	1,279,453	1,321,938	1,352,279	1,397,517	1,447,095	1,504,851	1,606,675	1,648,736	1,614,907	-33,829

^{1/} Budgeted. Estimated enrollment is 195,613 for UC

FIGURE HIED-2

Higher Education Expenditures General Fund, Lottery Funds, State School Fund, Local Revenues and Student Fees (Dollars in Millions)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	One-Year Change Amount	Percent
University of California ^{1/}	\$2,668.6	\$2,769.2	\$2,963.9	\$3,096.9	\$3,480.6	\$3,694.6	\$4,228.0	\$4,482.6	\$4,408.0	\$4,520.2	\$112.2	2.5%
California State University ^{1/}	2,141.8	2,229.2	2,417.8	2,513.5	2,741.1	2,813.1	3,104.5	3,433.2	3,477.3	3,565.6	\$88.3	2.5%
Community Colleges	3,639.1	3,894.2	4,200.4	4,619.3	5,014.5	5,315.4	5,993.4	6,457.8	6,533.2	6,129.4	-\$403.8	-6.2%
Student Aid Commission	226.1	236.8	264.7	295.2	343.4	385.4	487.4	544.0	621.3	699.4	\$78.1	12.6%
Other Higher Education ^{2/}	156.9	156.3	190.2	181.1	180.4	205.4	223.9	207.5	171.7	194.2	\$22.5	13.1%
Total Funds	\$8,832.5	\$9,285.7	\$10,037.0	\$10,706.0	\$11,760.0	\$12,413.9	\$14,037.2	\$15,125.1	\$15,211.5	\$15,108.8	-\$102.7	-0.7%

^{1/} For purposes of this table, expenditures for the UC and CSU have been adjusted to include the offsetting general purpose income. This provides consistency in comparing magnitudes and growth among the various segments of education.

^{2/} The Other Higher Education amount includes Hastings College of the Law (HCL), the California Postsecondary Education Commission, and General Obligation Bond Interest and Redemptions for UC, CSU, and HCL.



approved increases in professional school fees that range from an additional \$150 per quarter for nursing and theater/film/television students, and \$400 per quarter for business, dentistry, law, and medicine students.

The CSU Board of Trustees approved a \$72 per-semester increase in undergraduate student fees and a \$114 per-semester increase in graduate student fees beginning in the second semester of the 2002-03 school year. With these increases, undergraduate fees will increase from \$1,428 to \$1,572, and graduate fees will increase from \$1,506 to \$1,734. This represents a 10 percent increase in the undergraduate student fee and a 15 percent increase in the graduate student fee.

Approximately one-third of the additional revenue generated by these fee increases will be directed by UC and CSU toward student financial aid. Furthermore, since the Administration proposes to increase Cal Grant awards to compensate for the fee increases, students with the greatest financial need should see little or no net increase in their out-of-pocket educational expenses.

In order for the CCC to continue to provide a quality education and maintain access amidst weak economic conditions, the Governor's Budget proposes to increase fees from the current level of \$11 per unit to \$24 per unit in 2003-04. As a result, fee revenue will increase by approximately \$149 million, replacing a like amount of General Fund.

Even with the fee increase, the CCC will continue to be the most affordable higher education system in the nation. Students attending the CCC in 2003-04 will pay only

40 percent of the national average for community colleges. Additionally, the Governor's Budget includes funds to offset the associated fees waived for all low-income students meeting Board of Governor's guidelines—roughly 40 percent of all CCC students. Projected short term attrition is expected to lead to General Fund savings of approximately \$215 million. While this estimate is subject to actual student behavior, the Administration intends to work with the Chancellor's office to determine true attrition levels and will consider adjustments to funding based on actual enrollment and FTE student experience in the budget year.

Program adjustments for each higher education segment are discussed below. Enrollments for 2003-04 are indicated in Figure HIED-1. Total funding levels (excluding capital outlay) are shown in Figure HIED-2.

University of California

General Fund Reductions—The December 2002 Mid-Year Spending Reduction Proposals included General Fund reductions of \$74 million to UC's 2002-03 budget. The Governor's Budget saves \$235.6 million in anticipated increases related to the Partnership Agreement and proposes General Fund reductions to UC's base budget of \$373 million. The Governor's Budget also assumes future anticipated student fee increases by the UC Regents to offset General Fund reductions that may affect direct instruction.

The Governor's Budget proposes to allocate the \$373 million in General Fund reductions as follows:



- ◆ \$214 million in unallocated base reductions.
- ◆ A total of \$76 million in reductions for academic and institutional support, student services, and public service.
- ◆ \$33 million for outreach.
- ◆ \$29 million for research.
- ◆ \$15 million for the Subject Matter Projects professional development program.
- ◆ \$4.4 million for AP On-line, which provides opportunities for online access to advanced placement courses for high school students.
- ◆ \$1.1 million for the K-12 Internet Initiative, which provides access to a high speed network for school districts to access advanced placement courses, professional development for teachers, and extended library resources. Sufficient funding remains to support access nodes in 51 counties supporting most K-12 students in the state.

General Fund Increases—The Governor's Budget proposes \$117 million General Fund to support projected enrollment increases of 8,000 full-time equivalent FTE students, for a total General Campus, Health Sciences and State funded summer FTE enrollment of 197,628. This funding also will be used to support approximately 5,000 FTE over-enrollments, for whom enrollment growth funding was not provided in 2002-03.

The Governor's Budget also proposes the following adjustments:

- ◆ \$24 million for lease-revenue bond debt service.
- ◆ \$16 million for increased annuitant health benefits.
- ◆ \$11 million for UC Merced start-up costs.

California State University

General Fund Reductions—The December 2002 Mid-Year Spending Reduction Proposals included General Fund reductions of \$59.6 million in CSU's 2002-03 budget. The Governor's Budget saves \$200.6 million in anticipated funding increases related to the Partnership Agreement and proposes General Fund reductions to CSU's base budget of \$326 million. The Governor's Budget also assumes future anticipated student fee increases by the CSU Trustees to offset General Fund reductions that may affect direct instruction.

The Governor's Budget proposes to distribute the \$326 million in General Fund reductions as follows:

- ◆ \$143 million in unallocated base reductions.
- ◆ A total of \$59 million in reductions for academic and institutional support and public services.
- ◆ \$53 million through increasing the faculty-to-student ratio from 18.9 to 1 to 19.9 to 1.
- ◆ \$53 million in student services.



- ◆ \$13 million in outreach.
- ◆ \$2 million through elimination of Cal Teach, a one-stop information referral and recruitment service for students considering teaching careers that was established in 1997.
- ◆ \$2 million through elimination of the Bilingual Teacher Recruitment Program.
- ◆ \$1.4 million to the Student Fellows Program.

General Fund Increases—The Governor's Budget proposes \$151 million General Fund for CSU to support projected enrollment increases of 16,056 FTE students, for a total FTE enrollment of 337,188. This funding also will be used to support approximately 8,000 FTE over-enrollments, for whom enrollment growth funding was not provided in 2002-03.

The Governor's Budget also proposes:

- ◆ \$68 million for increased Public Employees Retirement System costs.
- ◆ \$1 million for increased annuitant benefit costs.
- ◆ \$1 million General Fund in additional funding for lease-revenue bond debt service.

California Community Colleges

The Governor's Budget proposes over \$6.1 billion for the CCC through a combination of State revenue, local property taxes, federal funds, student fees, lottery proceeds, and other miscellaneous revenues. Of this

amount, \$4.1 billion, including \$1.9 billion in General Fund, counts toward the Proposition 98 guarantee. The primary missions of the CCC are to offer academic and vocational education at the lower division level for both younger and older students; to advance California's economic growth and global competitiveness through education, training, and services that contributes to continuous workforce improvement; and through basic skills courses and adult non-credit instruction to provide remedial instruction to hundreds of thousands of adults throughout the state.

Figure HIED-3 shows total funding for the CCC in 2003-04.

Figure HIED-4 shows the funding sources and their proportions from 2001-02 through 2003-04.

Mid-Year Spending Reduction Proposals—

The December 2002 package proposes a \$97.5 million across the board reduction of 3.66 percent to all CCC Proposition 98 programs, including apportionments. This reduction is continued in the 2003-04 fiscal year. Additionally, apportionments are proposed to be reduced by \$80 million to reflect the estimate of non-compliant credit FTE students claimed in 2001-02 by community college districts providing instruction to concurrently enrolled K-12 students. A \$33.3 million decline in 2002-03 property tax revenues is not proposed to be backfilled due to the State's overall revenue shortfall. Estimated savings totaling \$7.6 million from Special Services for CalWORKs and from increased property taxes from prior years are proposed to be reverted in the current year. In addition, \$396,000 and 1.0 personnel year is proposed for reduc-



tion from state operations in the CCC Chancellor's Office in the current year. These state operations reductions are continued in 2003-04.

Major Local Assistance Adjustments

- ◆ **Enrollment**—The CCC is expected to serve approximately 1,072,000 FTE students in 2003-04. This amount represents a net reduction of 5.7 percent or 65,000 FTE students from the 2002-03 fiscal year. The reduction in FTE students includes estimated attrition and the concurrent enrollment adjustment. Partially mitigating the effects of projected FTE students reductions, the Governor's Budget includes \$115.7 million for 3 percent enrollment growth in apportionments, which will restore approximately 31,000 FTE students to access high priority instructional programs. The level of funded growth exceeds the 1.84 per-

cent change in adult population, the current statutory index for system growth.

- ◆ **Scheduled Maintenance and Instructional Equipment**—The Governor's Budget provides nearly \$70 million for Scheduled Maintenance and Instructional Equipment Replacement, thereby continuing to provide significant funding to help districts upgrade their colleges' physical plant, maintain library collections, and ensure student access to computer labs and relevant instructional equipment for vocational programs.

Local Assistance Reductions

- ◆ **Concurrent Enrollment**—The December 2002 package reduces CCC apportionment funding by \$80 million, and eliminates 22,000 FTE students from K-12 districts that do not meet the requirements of current law. Existing law permits the concurrent enrollment of up to 5 percent of the student population of a high school in community college

FIGURE HIED-3

Significant Revenue Sources for Community Colleges

(Dollars in Millions)

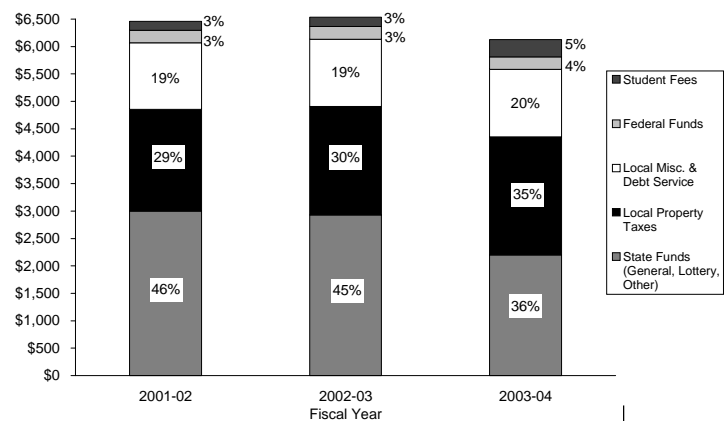
Source of Funds	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Change From 2002-03	
												Dollars	Percent
State General Fund	\$1,279.2	\$1,342.7	\$1,600.3	\$1,872.5	\$2,108.3	\$2,259.7	\$2,551.5	\$2,796.8	\$2,851.1	\$2,775.9	\$2,048.6	-\$727.3	-26.2%
Lottery Fund	94.2	100.7	107.4	95.4	108.7	117.8	126.2	121.0	138.1	141.2	141.2	\$0.0	0.0%
Local Property Taxes	1,278.5	1,332.0	1,348.1	1,335.7	1,422.7	1,487.7	1,585.3	1,713.6	1,852.1	1,980.2	2,157.8	\$177.6	9.0%
Student Fees	186.9	174.9	166.9	163.5	166.5	160.2	155.2	156.7	164.0	168.9	318.5	\$149.6	88.5%
Other State Funds	5.4	7.0	7.1	6.4	7.4	7.3	10.0	12.4	11.9	11.3	7.7	-\$3.7	-32.5%
Federal Funds	136.3	146.1	143.7	142.1	150.0	160.8	185.5	197.5	225.9	228.2	228.2	\$0.0	0.0%
Local Miscellaneous	554.4	533.8	517	582	652	817	697.0	987.5	1,184.0	1,196.3	1,196.3	\$0.0	0.0%
Local Debt Service	2.8	1.7	3.6	3.1	4.2	4.4	4.6	8.2	30.7	31.1	31.1	\$0.0	0.0%
TOTAL REVENUE	\$3,537.8	\$3,638.8	\$3,894.1	\$4,200.4	\$4,619.3	\$5,014.5	\$5,315.4	\$5,993.4	\$6,457.8	\$6,533.2	\$6,129.4	-\$403.8	-6.2%



courses. For a college to claim apportionment, however, the student must have the permission of the parent and the school district's board of education or principal of the school; the community college course must be open to the general public. Furthermore, current law intends that concurrent enrollment be used to provide gifted students college-level academic instruction and vocational instruction to students that cannot be met in secondary schools. To the extent that a college district's concurrent enrollment practices are consistent with the intent of existing law, their apportionment level should not be adversely affected. The Administration will propose statutory changes to ensure the law clarifies that apportionments are only available for the purposes specified above as opposed to courses such as physical education.

- ◆ **Across-the-Board Reductions**—In addition to the continuation of the \$97.5 million reduction proposed in the December 2002 package for the CCC's share of the K-14 3.66 percent across-the-board reduction, the Governor's Budget proposes additional reductions of \$60.3 million to all CCC categorical programs in 2002-03 and 2003-04 for the CCC's share of the K-14 7.46 percent across-the-board reduction.
- ◆ **Targeted Reductions**—In addition to the reductions cited above, \$211.5 million in reductions for 2003-04 are proposed for the following categorical programs that generally augment services provided with discretionary funds:

FIGURE HIED-4
Revenue Sources for Community Colleges
(Dollars in Millions)



- ◇ \$102.4 million for the Partnership for Excellence.
- ◇ \$32.8 for the Extended Opportunity Programs and Services and the Community Assistance Resources for Education program.
- ◇ \$28.4 for Disabled Students Programs and Services.
- ◇ \$1.7 million for the Teacher and Reading Development Partnerships.
- ◇ \$5.1 million for Matriculation.
- ◇ \$169,000 for the Academic Senate.
- ◇ \$341,000 for Part-Time Faculty Health Insurance.
- ◇ \$2.4 million for Part-Time Faculty Office Hours.
- ◇ \$989,000 for the California Virtual University.
- ◇ \$556,000 for the Fund for Instructional Improvement.



- ◇ \$12.2 million for the Economic Development Program.
- ◇ \$10.8 million for Scheduled Maintenance/Special Repairs.
- ◇ \$10.8 million for Instructional Equipment/Library Materials Replacement.
- ◇ \$2.7 million for Hazardous Substance Removal.
- ◆ **Outreach**—A \$3.2 million reduction is proposed for the Fund for Student Success programs, representing a 50 percent reduction that is consistent with reductions taken by the other higher education segments.

Other Local Assistance Governor's Budget Proposals

- ◆ **Property Tax Reallocation**—The Governor's Budget proposes to redirect \$10.0 million in excess property tax from Basic Aid districts (i.e. districts

with local revenue that exceeds their apportionment) to other districts within the county. Because the current year across-the-board reductions to apportionments do not affect Basic Aid districts, this proposal is intended to more broadly and equitably address reductions for all districts.

- ◆ **Extended Opportunities Programs and Services (EOPS) Proposition 98 Swap**—\$50.9 million from the Proposition 98 Reversion Account will replace an equal amount of 2002-03 Proposition 98 funding for EOPS.

State Operations Adjustments—In addition to the continuation of the \$451,000 General Fund and 8.5 position reduction pursuant to Section 31.60 of the 2002 Budget Act and the \$396,000 General Fund and 1.0 position reduction proposed in the December 2002 package, the Governor's Budget proposes reductions to the CCC Chancellor's Office for 2003-04 of \$1.8 million and 16.5 positions for a total

FIGURE HIED-5

Financial Aid Grants General Fund and Fee Revenue Funded (Dollars in Thousands)

Institution/Fund Source	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
University of California ^{1/}	\$176,531	\$180,700	\$195,481	\$196,427	\$212,299	\$226,864	\$234,054	\$242,081	\$241,081	\$313,981
General Fund	53,743	62,644	62,260	60,251	69,228	85,563	85,563	85,938	68,938	68,938
Fee Revenue	122,788	118,056	133,221	136,176	143,071	141,301	148,491	156,143	172,143	145,543
California State University ^{1/}	<u>109,042</u>	<u>110,047</u>	<u>114,588</u>	<u>115,974</u>	<u>120,527</u>	<u>127,386</u>	<u>131,618</u>	<u>135,563</u>	<u>124,559</u>	<u>152,784</u>
General Fund	47,680	47,659	47,684	48,417	54,180	65,647	65,647	65,647	51,147	51,147
Fee Revenue	61,362	62,388	66,904	67,557	66,347	61,739	65,971	69,916	73,412	94,387
Community Colleges ^{1/}										
General Fund	89,551	94,050	100,486	101,636	95,275	85,928	90,540	97,474	100,398	235,949
Student Aid Commission ^{1/}										
General Fund	<u>222,878</u>	<u>230,523</u>	<u>257,670</u>	<u>282,228</u>	<u>334,795</u>	<u>376,850</u>	<u>473,546</u>	<u>543,498</u>	<u>635,038</u>	<u>715,454</u>
Total	\$598,002	\$615,320	\$668,225	\$696,265	\$762,896	\$817,028	\$929,758	\$1,018,616	\$1,101,076	\$1,410,918
General Fund	413,852	434,876	468,100	492,532	553,478	613,988	715,296	792,557	855,521	1,071,488
Fee Revenues	184,150	180,444	200,125	203,733	209,418	203,040	214,462	226,059	245,555	339,430

^{1/} Reflects budgeted amounts for 2002-03 and 2003-04.

^{2/} Includes \$14 million GF for EOP grants through 1998-99 and \$17 million beginning 1999-00.



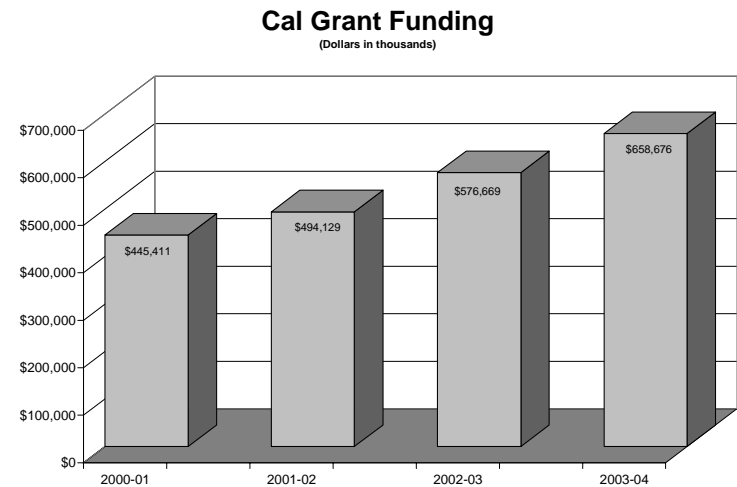
of \$2.2 million. These additional budget year reductions are designed to preserve core services. To help mitigate the proposed reductions, the Governor's Budget provides a \$920,000 increase in reimbursement authority and continues 1.0 position necessary for federal data collection that was formerly funded through General Fund. The Governor's Budget also provides a \$100,000 increase from general obligation bond funds and 1.0 position to address additional workload from the passage of the Kindergarten-University Public Education Facilities Bond Act of 2002 (Proposition 47).

Financial Aid Programs

To ensure access to higher education for all qualified students, regardless of income, the Administration proposes to increase Cal Grant funding to fully cover the student fee increases enacted by UC and CSU in 2002-03, and additional fee increases that are anticipated to be implemented in 2003-04.

Cal Grants Awards are statutorily required to be increased to reflect fee increases approved by the segments. The Governor's Budget reflects a \$5.4 million increase in 2002-03 and \$13.8 million for the full 2003-04 academic year to reflect those actions. The Budget also reflects an increase in Cal Grants for 2003-04 in anticipation of future student fee increases. The total General Fund provided for Cal Grant A and B awards therefore increases by \$82 million over the amount projected for expenditure in 2002-03, from \$577 million to \$659 million (see Figure HIED-5).

FIGURE HIED-6



In view of the State's current fiscal situation, the Administration proposes the following General Fund reductions to financial aid programs:

- ◆ \$10 million to reflect a 9 percent reduction in the value of new Cal Grant A and B awards provided to recipients who attend private colleges and universities.
- ◆ \$5 million through elimination of the State Work Study Program.
- ◆ \$4 million by reducing from 10,730 to 7,690 the number of Cal Grant C awards annually issued.
- ◆ \$3 million by reducing from 1,390 to 850 the number of Cal Grant T awards annually issued.

Figure HIED-6 shows growth in Cal Grant A and B awards in recent years.



California Postsecondary Education Commission

In view of the current General Fund situation, the Governor's Budget proposes to reduce General Fund expenditures for state operations at the California Postsecondary Education Commission by \$1.4 million, from \$2.1 million to \$700,000. This reduction is an increase from that proposed in the December 2002 package to the 2002 Budget Act, and will result in the elimination of 23.5 of the Commission's 28.5 positions.

